

VILLAGE OF NORTH ADAMS

AUDIT REPORT

FEBRUARY 29, 2008

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* VILLAGE OF NORTH ADAMS	County* HILLSDALE	Type* VILLAGE	MuniCode* 30-3-050
Opinion Date-Use Calendar* Sep 29, 2008	Audit Submitted-Use Calendar* Oct 21, 2008	Fiscal Year End Month* 02	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

- ☒ ☐ 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ ☐ 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☐ ☐ 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☐ ☐ 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ ☐ 5. Did the local unit adopt a budget for all required funds?
- ☐ ☐ 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ ☐ 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ ☐ 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☒ ☐ 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ ☐ 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ ☐ 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☐ ☐ 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ ☐ 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
- ☒ ☐ 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ ☐ 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ ☐ 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☒ ☐ 18. Are there reported deficiencies? ☒ 19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="checkbox"/> \$ 201,659.00
General Fund Expenditure:	<input type="checkbox"/> \$ 169,721.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="checkbox"/> \$ 443,770.00
Governmental Activities Long-Term Debt (see instructions):	<input type="checkbox"/> \$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* KELLY	Last Name* HODSHIRE	Ten Digit License Number* 1101020992		
CPA Street Address* 479 E CHICAGO ST	City* JONESVILLE	State* MI	Zip Code* 49250	Telephone* +1 (517) 849-2410
CPA Firm Name* BAILEY, HODSHIRE & COMPANY	Unit's Street Address* 129 W MAIN ST	Unit's City* NORTH ADAMS	Unit's Zip* 49262	

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Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of North Adams
North Adams, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of North Adams' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of North Adams, as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of Village of North Adams' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Village Council
Village of North Adams

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 25 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey Hodshire & Company PC
Jonesville, Michigan
September 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 29, 2008

This section of the Village of North Adams' annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended February 29, 2008. Please read it in conjunction with the Village's financial statements which follow this section.

Financial Highlights

- Net assets is the amount by which the Village's assets exceeded its liabilities. Net assets totaled \$2,483,828 at February 29, 2008. The unrestricted portion of this amount, \$644,017 (25 percent), is available to be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$14,631 (.6 percent) as a result of this year's activities. Net assets of the governmental type activities increased by \$11,626 and business-type activities increased by \$3,005.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$443,770, which represents 261 percent of the actual General Fund expenditures for the current year.

Overview of the Financial Statements

The Village's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.

Governmental fund statements tell how general government services were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by the private-sector companies.

Statement of Net Assets - This statement presents information of all of the Village's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Village's financial position as a whole is improving or deteriorating. To assess the overall health of the Village you need to consider additional non-financial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 29, 2008

Statement of Activities - This reports how the Village's net assets changed during the fiscal year. All current year revenues and expenses are included regardless of when the cash is received or paid. An important purpose of this statement is to show the financial reliance of the Village's distinct activities or functions on revenues provided by the taxpayers.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as fire protection, general government, and streets. Property taxes and state shared revenue finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer system is reported here.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required by State law. The Village Council also establishes other funds to control and manage money for particular purposes (like street maintenance) to show that it is properly using certain revenues (like state grants collected for the street funds). All of the Village's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Most of the Village's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in a reconciling statement that explains the relationship between them.

Budgetary comparison statements are included as required supplementary information for the general fund and major special revenue funds. These statements and schedules demonstrate compliance with the Village's adopted and final revised budget.

Proprietary Funds generally report services for which the Village charges customers a fee. There are two types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise Funds are used to report functions presented as business-type activities, while Internal Service Funds primarily service the governmental unit and are included with governmental activities. The Sewer Fund is an Enterprise Fund. The Village does not have an Internal Service Fund. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Village's enterprise funds are the same as its business-type activities but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information can be found immediately following the notes to the financial statements. This information includes budgets and actual statements for major governmental funds.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 29, 2008

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Village's financial position. The Village's assets exceeded its liabilities by \$2,483,828 (net assets) at the close of this fiscal year. Net assets at the beginning of the fiscal year totaled \$2,469,197, showing an increase of \$14,631 over the prior year. While the Village reports unrestricted net assets under both governmental and business-type activities, the unrestricted net assets of the business-type activities cannot be used to make up any net asset deficit in governmental activities. The following table provides a summary of the Village's net assets as of the end of the year:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Assets						
Current Assets	\$ 454,392	\$ 507,979	\$ 494,175	\$ 492,408	\$ 948,567	\$ 1,000,387
Capital Assets	<u>556,632</u>	<u>518,236</u>	<u>1,547,126</u>	<u>1,480,490</u>	<u>2,103,758</u>	<u>1,998,726</u>
Total Assets	<u>\$ 1,011,024</u>	<u>\$ 1,026,215</u>	<u>\$ 2,041,301</u>	<u>\$ 1,972,898</u>	<u>\$ 3,052,325</u>	<u>\$ 2,999,113</u>
Liabilities						
Current Liabilities	\$ 6,069	\$ 9,634	\$ 17,059	\$ 15,651	\$ 23,128	\$ 25,285
Long-term Liabilities	<u>0</u>	<u>0</u>	<u>560,000</u>	<u>490,000</u>	<u>560,000</u>	<u>490,000</u>
Total Liabilities	<u>\$ 6,069</u>	<u>\$ 9,634</u>	<u>\$ 577,059</u>	<u>\$ 505,651</u>	<u>\$ 583,128</u>	<u>\$ 515,285</u>
Net Assets						
Invested in Capital Assets, Net of Debt	\$ 556,632	\$ 518,236	\$ 987,126	\$ 990,490	\$ 1,543,758	\$ 1,508,726
Restricted	0	0	322,389	331,085	322,389	331,085
Unrestricted	<u>448,323</u>	<u>498,345</u>	<u>154,727</u>	<u>145,672</u>	<u>603,050</u>	<u>644,017</u>
Total Net Assets	<u>\$ 1,004,955</u>	<u>\$ 1,016,581</u>	<u>\$ 1,464,242</u>	<u>\$ 1,467,247</u>	<u>\$ 2,469,197</u>	<u>\$ 2,483,828</u>
Total Liabilities and Net Assets	<u>\$ 1,011,024</u>	<u>\$ 1,026,215</u>	<u>\$ 2,041,301</u>	<u>\$ 1,972,898</u>	<u>\$ 3,052,325</u>	<u>\$ 2,999,113</u>

The Village reported positive balances in net assets for both governmental and business-type activities. Net assets increased \$11,626 for governmental activities and increased \$3,005 for business-type activities; therefore, the Village's overall financial position improved slightly during fiscal year 2008.

The following table reflects the change in net assets of the Village's governmental and business-type activities for the year ended February 29, 2008:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Program Revenues						
Charges for Services	\$ 46,987	\$ 46,229	\$ 120,033	\$ 120,801	\$ 167,020	\$ 167,030
Operating Grants and Contributions	42,721	51,343	0	0	42,721	51,343
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes - general purposes	76,482	79,236	0	0	76,482	79,236
State Shared Revenue	50,444	49,990	0	0	50,444	49,990
Unrestricted Investment Earnings	19,161	21,320	11,775	11,961	30,936	33,281
Other Revenue	<u>55</u>	<u>5,546</u>	<u>2,591</u>	<u>2,606</u>	<u>2,646</u>	<u>8,152</u>
Total Revenue	<u>\$ 235,850</u>	<u>\$ 253,664</u>	<u>\$ 134,399</u>	<u>\$ 135,368</u>	<u>\$ 370,249</u>	<u>\$ 389,032</u>

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 29, 2008

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Program Expenses						
General Government	\$ 87,189	\$ 89,623	\$ 0	\$ 0	\$ 87,189	\$ 89,623
Public Safety	9,098	7,187	0	0	9,098	7,187
Streets and Highways	59,633	58,966	0	0	59,633	58,966
Culture and Recreation	2,300	3,000	0	0	2,300	3,000
Depreciation	38,396	38,396	0	0	38,396	38,396
Public Works	45,239	38,857	0	0	45,239	38,857
Sanitary Landfill	6,283	6,009	0	0	6,283	6,009
Sewer Utility	0	0	129,210	132,363	129,210	132,363
Total Expenses	\$ 248,138	\$ 242,038	\$ 129,210	\$ 132,363	\$ 377,348	\$ 374,401
Change in Net Assets	\$ (12,288)	\$ 11,626	\$ 5,189	\$ 3,005	\$ (7,099)	\$ 14,631

Governmental Activities increased the Village's net assets by \$11,626.

Revenues from governmental activities totaled \$253,664. Property tax revenue represented the largest portion of those revenues (31%), and state shared revenue represented 19% of the total.

The largest components of governmental activities' expenses were general government (37%) and street and highways (24%). General government consists of Village Council, administration, and recreation and culture.

Business-type Activities increased the Village's net assets by \$3,005. These net assets will be used to repay the debt on the sewer plant improvements, as well as planning for future improvements in the sewer system.

Governmental Funds - The focus of the Village's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of February 29, 2008, the Village's governmental funds reported combined ending fund balances of \$498,345. Of this total, approximately 89% was unreserved, indicating availability for continuing Village service requirements.

The General Fund is the primary operating fund of the Village. At the end of the current fiscal year, the General Fund showed a healthy fund balance of \$448,770. The other Major Governmental Funds include Major Streets and Local Streets. The Major Street Fund had an increase in fund balance of \$15,448 and the Local Streets Fund balance increased \$2,636.

Proprietary Funds - The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The Village's proprietary fund consists of the Sewer Fund. Total net assets of the Sewer Fund was \$1,467,247 at February 29, 2008, an increase of \$3,005 from the previous fiscal year.

Major Governmental Funds Budgeting and Operating Highlights

The Village did not amend the budget during the current fiscal year. Some reasons for differences between the budget adopted and actual expenditure are as follows: Sanitation, Council Wages, Publishing, and Street Maintenance expenditures were higher than expected.

Village of North Adams, Michigan
Management's Discussion and Analysis (MD&A)
For the year ended February 29, 2008

Capital Asset and Debt Administration

Capital assets at year-end were as follows:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Land	\$ 35,000	\$ 35,000	\$ 35,062	\$ 35,062	\$ 70,062	\$ 70,062
Building and Improvements	164,500	164,500	0	0	164,500	164,500
Facilities and Mains	0	0	2,436,785	2,436,785	2,436,785	2,436,785
Furniture and Equipment	171,850	171,850	16,700	16,700	188,550	188,550
Vehicles	599,041	599,041	0	0	599,041	599,041
Less: Accumulated Depreciation	<u>(413,759)</u>	<u>(452,155)</u>	<u>(941,421)</u>	<u>(1,008,057)</u>	<u>(1,355,180)</u>	<u>(1,460,212)</u>
Total Capital Assets, net of depreciation	<u>\$ 556,632</u>	<u>\$ 518,236</u>	<u>\$ 1,547,126</u>	<u>\$ 1,480,490</u>	<u>\$ 2,103,758</u>	<u>\$ 1,998,726</u>

At February 29, 2008, the Village had \$490,000 in bonds outstanding, as shown below:

	Governmental Activities	Business-type Activities	Totals
Revenue Bonds	\$ 0	\$ 490,000	\$ 490,000
Total Long-Term Debt	<u>\$ 0</u>	<u>\$ 490,000</u>	<u>\$ 490,000</u>

Factors Bearing on the Village's Future

The Village expects similar levels of revenue and expenditures for the 2009 fiscal year except that State shared revenues have consistently declined in recent years, and this trend is expected to continue.

The national economic downturn and market performance continue to be a concern for Village management. We continue to depend on state revenue sharing and investment income as major funding sources for the Village. As the state cuts our revenue, we will continue to strive to cut expenditures. Improved monitoring of monthly revenue and expenditures will enable the Village Council to make more informed financial decisions. Insurance coverages are being monitored for adequate coverage and possible reductions in premiums. During the 2009 fiscal year, repair work to trees and sidewalks is planned.

Contacting the Village's Financial Management

This financial report is designed to provide a general overview of the Village of North Adams' finances. Questions or comments concerning any of the information provided in this report should be addressed to Village of North Adams, 129 W. Main Street, North Adams, Michigan 49262.

BASIC FINANCIAL STATEMENTS



**VILLAGE OF NORTH ADAMS
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 469,897	\$ 464,630	\$ 934,527
Accounts Receivable	0	19,065	19,065
Taxes Receivable	8,225	0	8,225
Due from Other Governmental Units	23,048	0	23,048
Delinquent Assessments Receivable	0	8,713	8,713
Prepaid Expense	<u>6,809</u>	<u>0</u>	<u>6,809</u>
Total Current Assets	<u>\$ 507,979</u>	<u>\$ 492,408</u>	<u>\$ 1,000,387</u>
Noncurrent Assets			
Capital Assets			
Land	\$ 35,000	\$ 35,062	\$ 70,062
Buildings & Improvements	164,500	0	164,500
Facilities & Mains	0	2,436,785	2,436,785
Furniture & Equipment	171,850	16,700	188,550
Vehicles	599,041	0	599,041
Less: Accumulated Depreciation	<u>(452,155)</u>	<u>(1,008,057)</u>	<u>(1,460,212)</u>
Total Noncurrent Assets	<u>\$ 518,236</u>	<u>\$ 1,480,490</u>	<u>\$ 1,998,726</u>
Total Assets	<u>\$ 1,026,215</u>	<u>\$ 1,972,898</u>	<u>\$ 2,999,113</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 9,634	\$ 6,047	\$ 15,681
Interest Payable	0	9,604	9,604
Current Portion of Long-Term Debt	<u>0</u>	<u>0</u>	<u>0</u>
Total Current Liabilities	<u>\$ 9,634</u>	<u>\$ 15,651</u>	<u>\$ 25,285</u>
Noncurrent Liabilities			
Revenue Bonds Payable	<u>\$ 0</u>	<u>\$ 490,000</u>	<u>\$ 490,000</u>
Total Liabilities	<u>\$ 9,634</u>	<u>\$ 505,651</u>	<u>\$ 515,285</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 518,236	\$ 990,490	\$ 1,508,726
Restricted for:			
Replacement	0	1,371	1,371
Improvement	0	329,714	329,714
Unrestricted	<u>498,345</u>	<u>145,672</u>	<u>644,017</u>
Total Net Assets	<u>\$ 1,016,581</u>	<u>\$ 1,467,247</u>	<u>\$ 2,483,828</u>
Total Liabilities and Net Assets	<u>\$ 1,026,215</u>	<u>\$ 1,972,898</u>	<u>\$ 2,999,113</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF NORTH ADAMS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
Village Council	\$ 6,639	\$ 0	\$ 0	\$ 0	\$ (6,639)
Clerk	4,200	0	0	0	(4,200)
Treasurer	2,800	0	0	0	(2,800)
Contracted Services	8,430	0	0	0	(8,430)
Buildings and Grounds	15,272	0	0	0	(15,272)
Office Supplies and Postage	1,007	0	0	0	(1,007)
Fire Department	7,187	23,529	0	0	16,342
Public Works	38,857	0	0	0	(38,857)
Street Lighting and Maintenance	58,966	22,700	51,343	0	15,077
Sanitary Landfill	6,009	0	0	0	(6,009)
Recreation and Culture	3,000	0	0	0	(3,000)
Publishing	198	0	0	0	(198)
Payroll Tax Expense	6,300	0	0	0	(6,300)
Dues and Subscriptions	600	0	0	0	(600)
Insurance - Property	27,285	0	0	0	(27,285)
Insurance - Health and Life	14,632	0	0	0	(14,632)
Elections	1,124	0	0	0	(1,124)
Miscellaneous Expense	1,136	0	0	0	(1,136)
Depreciation - Unallocated	38,396	0	0	0	(38,396)
Total Governmental Activities	\$ 242,038	\$ 46,229	\$ 51,343	\$ 0	\$ (144,466)
Business-type Activities:					
Sewer	\$ 132,363	\$ 120,801	\$ 0	\$ 0	\$ (11,562)
Total Business-type Activities	\$ 132,363	\$ 120,801	\$ 0	\$ 0	\$ (11,562)
Total Primary Government	\$ 374,401	\$ 167,030	\$ 51,343	\$ 0	\$ (156,028)

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Change in Net Assets:			
Net (Expense) Revenue	\$ (144,466)	\$ (11,562)	\$ (156,028)
General Revenue:			
Property Taxes Levied for General Purposes	\$ 79,236	\$ 0	\$ 79,236
State Shared Revenue	49,990	0	49,990
Unrestricted Investment Income	21,320	11,961	33,281
Miscellaneous	5,546	2,606	8,152
Total General Revenue	\$ 156,092	\$ 14,567	\$ 170,659
Change in Net Assets	\$ 11,626	\$ 3,005	\$ 14,631
Net Assets - Beginning	1,004,955	1,464,242	2,469,197
Net Assets - Ending	\$1,016,581	\$1,467,247	\$2,483,828

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 29, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 443,827	\$ (5,782)	\$ 31,852	\$ 469,897
Taxes Receivable	8,225	0	0	8,225
Due from Other Funds	5,738	19,991	0	25,729
Due from Other Governmental Units	8,796	12,720	1,532	23,048
Prepaid Expense	<u>6,809</u>	<u>0</u>	<u>0</u>	<u>6,809</u>
Total Assets	<u>\$ 473,395</u>	<u>\$ 26,929</u>	<u>\$ 33,384</u>	<u>\$ 533,708</u>
LIABILITIES				
Accounts Payable	\$ 6,265	\$ 0	\$ 0	\$ 6,265
Due to Other Funds	<u>23,360</u>	<u>0</u>	<u>5,738</u>	<u>29,098</u>
Total Liabilities	<u>\$ 29,625</u>	<u>\$ 0</u>	<u>\$ 5,738</u>	<u>\$ 35,363</u>
FUND BALANCES				
Unreserved, reported in:				
General Fund	\$ 443,770	\$ 0	\$ 0	\$ 443,770
Special Revenue Funds	<u>0</u>	<u>26,929</u>	<u>27,646</u>	<u>54,575</u>
Total Fund Balances	<u>\$ 443,770</u>	<u>\$ 26,929</u>	<u>\$ 27,646</u>	<u>\$ 498,345</u>
Total Liabilities and Fund Balances	<u>\$ 473,395</u>	<u>\$ 26,929</u>	<u>\$ 33,384</u>	<u>\$ 533,708</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
February 29, 2008

Fund Balances - total governmental funds	\$ 498,345
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Capital assets	970,391
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Deduct: Accumulated depreciation	<u>(452,155)</u>
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Net assets of governmental activities	<u>\$ 1,016,581</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
REVENUE				
Property Taxes	\$ 79,236	\$ 0	\$ 0	\$ 79,236
State Shared Revenue	49,990	41,989	9,354	101,333
Fire Service	23,529	0	0	23,529
Rents and Royalties	22,700	0	0	22,700
Interest	20,658	496	166	21,320
Miscellaneous Income	<u>5,546</u>	<u>0</u>	<u>0</u>	<u>5,546</u>
Total Revenue	<u>\$ 201,659</u>	<u>\$ 42,485</u>	<u>\$ 9,520</u>	<u>\$ 253,664</u>
EXPENDITURES				
General Government				
Village Council	\$ 6,639	\$ 0	\$ 0	\$ 6,639
Clerk	4,200	0	0	4,200
Treasurer	2,800	0	0	2,800
Contracted Services	8,430	0	0	8,430
Building and Grounds	15,272	0	0	15,272
Office Supplies and Postage	1,007	0	0	1,007
Fire Department	7,187	0	0	7,187
Public Works	38,857	0	0	38,857
Street Lighting and Maintenance	25,045	27,037	6,884	58,966
Sanitary Landfill	6,009	0	0	6,009
Recreation and Culture	3,000	0	0	3,000
Publishing	198	0	0	198
Payroll Tax Expense	6,300	0	0	6,300
Dues and Subscriptions	600	0	0	600
Insurance - Property	27,285	0	0	27,285
Insurance - Health and Life	14,632	0	0	14,632
Capital Outlay	0	0	0	0
Elections	1,124	0	0	1,124
Miscellaneous Expense	<u>1,136</u>	<u>0</u>	<u>0</u>	<u>1,136</u>
Total Expenditures	<u>\$ 169,721</u>	<u>\$ 27,037</u>	<u>\$ 6,884</u>	<u>\$ 203,642</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 31,938</u>	<u>\$ 15,448</u>	<u>\$ 2,636</u>	<u>\$ 50,022</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	\$ 0	\$ 0	\$ 0	\$ 0
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	\$ 31,938	\$ 15,448	\$ 2,636	\$ 50,022
FUND BALANCES - Beginning	<u>411,832</u>	<u>11,481</u>	<u>25,010</u>	<u>448,323</u>
FUND BALANCES - Ending	<u>\$ 443,770</u>	<u>\$ 26,929</u>	<u>\$ 27,646</u>	<u>\$ 498,345</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
Reconciliation of Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended February 29, 2008

Net changes in fund balances - total governmental funds	\$ 50,022
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital outlay	0
Deduct: Depreciation expense	<u>(38,396)</u>

Change in net assets of governmental activities	<u>\$ 11,626</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
STATEMENT OF NET ASSETS
PROPRIETARY FUND
FEBRUARY 29, 2008

Enterprise Fund
Sewer

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 133,490
Accounts Receivable	15,697
Due From Other Funds	3,368
Delinquent Assessments Receivable	<u>8,713</u>
Total Current Assets	<u>\$ 161,268</u>

Restricted Assets

Debt Retirement Account	\$ 55
Improvement Account	329,714
Replacement Accounts	<u>1,371</u>
Total Restricted Assets	<u>\$ 331,140</u>

Noncurrent Assets

Capital Assets - Not Depreciated	\$ 35,062
Other Capital Assets, Net of Accumulated Depreciation	<u>1,445,428</u>
Total Noncurrent Assets	<u>\$ 1,480,490</u>
Total Assets	<u>\$ 1,972,898</u>

LIABILITIES

Current Liabilities

Accounts Payable	\$ 6,047
Total Current Liabilities	<u>\$ 6,047</u>

Liabilities Payable from Restricted Assets

Accrued Interest Payable	\$ 9,604
Revenue Bonds - Current	<u>0</u>
Total Liabilities Payable from Restricted Assets	<u>\$ 9,604</u>

Noncurrent Liabilities

Revenue Bonds Payable	\$ 490,000
Total Noncurrent Liabilities	<u>\$ 490,000</u>
Total Liabilities	<u>\$ 505,651</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 990,490
Restricted for Improvements	329,714
Restricted for Replacement	1,371
Unrestricted	<u>145,672</u>
Total Net Assets	<u>\$ 1,467,247</u>
Total Liabilities and Net Assets	<u>\$ 1,972,898</u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Enterprise Fund</u> <u>Sewer</u>
OPERATING REVENUE	
Sales	\$ 71,461
Connections Fees	49,340
Other	<u>2,606</u>
Total Operating Revenue	<u>\$ 123,407</u>
OPERATING EXPENSES	
Repairs and Maintenance	\$ 8,665
Wages	14,602
Operating Supplies	1,168
Utilities	6,340
Legal and Accounting Fees	2,916
Dues and Subscriptions	28
Depreciation	66,636
Payroll Taxes	1,047
Miscellaneous Expense	<u>182</u>
Total Operating Expenses	<u>\$ 101,584</u>
OPERATING INCOME (LOSS)	<u>\$ 21,823</u>
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	\$ 11,961
Interest Expense	<u>(30,779)</u>
Total Non-operating Revenue (Expense)	<u>\$ (18,818)</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 3,005</u>
Transfers From Other Funds	\$ 0
Transfers To Other Funds	<u>0</u>
CHANGE IN NET ASSETS	\$ 3,005
NET ASSETS - Beginning	<u>1,464,242</u>
NET ASSETS - Ending	<u><u>\$1,467,247</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF NORTH ADAMS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

Enterprise Fund
Sewer

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 119,248
Cash payments to suppliers for goods and services	(20,391)
Cash payments to employees for services	(14,602)
Other operating revenue	<u>2,606</u>
Net cash provided (used) by operating activities	<u>\$ 86,861</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	\$ 0
Principal paid on bonds	(70,000)
Interest paid on bonds	<u>(32,142)</u>
Net cash provided (used) by capital and related financing activities	<u>\$(102,142)</u>

CASH FLOWS FORM INVESTING ACTIVITIES

Investment income	<u>\$ 11,961</u>
Net cash provided (used) by investment activities	<u>\$ 11,961</u>

NET INCREASE (DECREASE) IN CASH
AND CASH EQUIVALENTS

\$ (3,320)

CASH AND CASH EQUIVALENTS - Beginning

467,950

CASH AND CASH EQUIVALENTS - Ending

\$ 464,630

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED
(USED) BY OPERATING ACTIVITIES

Operating income (loss)	<u>\$ 21,823</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	\$ 66,636
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(545)
(Increase) decrease in delinquent assessments receivable	2,360
(Increase) decrease in due from other funds	(3,368)
Increase (decrease) in accounts payable	5,154
Increase (decrease) in due to other funds	<u>(5,199)</u>
Total adjustments	<u>\$ 65,038</u>
Net cash provided (used) by operating activities	<u>\$ 86,861</u>

See accompanying notes to the basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of North Adams comprises a population of approximately 514 residents in Hillsdale County, Michigan. It is governed by a seven-member council with a president as its head. As required by generally accepted accounting principles, these financial statements present the Village's primary government.

The following is a summary of significant accounting policies used by Village of North Adams:

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Village consists of all funds, departments, boards and agencies that are not legally separate from the Village.

Component units are legally separate organizations for which the Village is financial accountable. Component units may also include organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt, or the levying of taxes. The Village has no component units.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by property taxes and Village general revenue, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Measurement Focus and Basis of Accounting

The financial statements of the Village are prepared in accordance with generally accepted accounting principles (GAAP). The Village applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

or within funds). However, internal eliminations do not include utility services provided to Village departments. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the primary, continuing operations of the fund. Principal operating revenue for proprietary funds is charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenue and expenses are classified as non-operating in the financial statements.

Financial Statement Presentation

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets and Local Streets).

The Village reports the following major enterprise fund:

Sewer Utilities Fund - accounts for the operating activities of the Village's sewer utilities services.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Proprietary fund capital assets are also reported in their respective fund and component unit financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings & Improvements	20 - 50 years
Furniture & Equipment	5 - 20 years
Vehicles	8 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

Long-Term Obligations - In the government-wide financial statements, all payables, accrued liabilities and long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt retirement expenditures.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the line-item level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to February 28, the Village Council proposes an operating budget for the fiscal year commencing on March 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to February 28, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year ended February 29, 2008, the Village incurred expenditures in certain budgetary funds that were in excess of the amount appropriated. These variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Village Council	\$ 4,775	\$ 6,639	\$ 1,864
Buildings and Grounds	12,450	15,272	2,822
Street Lighting and Maintenance	25,000	25,045	45
Sanitary Landfill	5,500	6,009	509
Payroll Tax Expense	5,000	6,300	1,300
Dues and Subscriptions	500	600	100
Elections	1,000	1,124	124
Miscellaneous	250	1,136	886
Major Streets Fund			
Winter Maintenance	13,000	15,279	2,279
Local Street Fund			
Routine Maintenance	0	2,770	2,770
Winter Maintenance	0	4,114	4,114

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes authorize the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of February 29, 2008, the Village's deposits are in accordance with statutory authority.

The Village's deposits and investments are subject to several types of risk, which are as follows:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village minimizes credit risk by limiting investments to the types of securities allowed by State law. The Village has no policy that would further limit its investment choices.

Concentration of Credit Risk - The Village places no limit on the amount that may be invested in any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a formal policy for custodial credit risk. At February 29, 2008, the carrying amount of the Village's bank deposits was \$934,527 and the bank's balance was \$939,185. Of the total bank balance, \$211,993 was covered by federal depository insurance and \$627,733 was uninsured. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village has no policy that specifically identifies interest rate risk.

Foreign Currency Risk - The Village is not authorized to invest in investments which have this type of risk.

NOTE 4 - RECEIVABLES

Receivables at February 29, 2008, consist of State revenue sharing, utility and other receivables. All receivables are considered collectible in full due to the ability to lien for the nonpayment of utility bills and the stable condition of State programs.

A summary of the principal items of receivables follows:

	General <u>Fund</u>	Major <u>Street</u>	Local <u>Street</u>	Proprietary <u>Funds</u>	<u>Total</u>
State Revenue Sharing	\$ 8,796	\$ 12,720	\$ 1,532	\$ 0	\$ 23,048
Utility Customers	0	0	0	24,110	24,410
Other Receivables	<u>8,225</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,225</u>
Total	<u>\$ 17,021</u>	<u>\$ 12,720</u>	<u>\$ 1,532</u>	<u>\$ 24,410</u>	<u>\$ 55,683</u>

NOTE 5 - RESTRICTED ASSETS

Certain assets in the Sewer Fund are set aside and classified as restricted on the balance sheet because their use is limited by applicable bond covenants. The replacement and improvement accounts are used to segregate resources accumulated for further improvements, enlargements, and extensions of the project. The debt retirement account is used to account for resources to be used solely for the purpose of paying principal and interest on the bond when due.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended February 29, 2008, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities</u>				
Capital assets not being depreciated				
Land	\$ 35,000	\$ 0	\$ 0	\$ 35,000
Capital assets being depreciated				
Buildings & Improvements	\$ 164,500	\$ 0	\$ 0	\$ 164,500
Furniture & Equipment	171,850	0	0	171,850
Vehicles	599,041	0	0	599,041
Less accumulated depreciation	(413,759)	(38,396)	0	(452,155)
Total capital assets being depreciated, net	\$ 521,632	\$ (38,396)	\$ 0	\$ 483,236
Governmental Activities				
Total capital assets, net	\$ 556,632	\$ (38,396)	\$ 0	\$ 518,236
<u>Business-Type Activities</u>				
Capital assets not being depreciated				
Land	\$ 35,062	\$ 0	\$ 0	\$ 35,062
Capital assets being depreciated				
Facilities & Mains	\$ 2,436,785	\$ 0	\$ 0	\$ 2,436,785
Machinery and Equipment	16,700	0	0	16,700
Less accumulated depreciation	(941,421)	(66,636)	0	(1,008,057)
Total capital assets being depreciated, net	\$ 1,512,064	\$ (66,636)	\$ 0	\$ 1,445,428
Business-Type Activities				
Total capital assets, net	\$ 1,547,126	\$ (66,636)	\$ 0	\$ 1,480,490
PRIMARY GOVERNMENT				
Total capital assets, net	\$ 2,103,758	\$ (105,032)	\$ 0	\$ 1,998,726

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances at February 29, 2008, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 5,738	Local Streets	\$ 5,738
Sewer Fund	3,369	General Fund	3,369
Major Streets	19,991	General Fund	19,991
	<u>\$ 29,098</u>		<u>\$ 29,098</u>

The Local Streets Fund owes the General Fund for equipment rentals. The amount due from General Fund to Major Streets is for an outstanding transfer net of equipment rentals due at February 29, 2008. General Fund owes the Sewer Fund for delinquent special assessments for 2007 deposited into the General Fund net of payroll taxes on Sewer wages paid by the General Fund.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 8 - LONG-TERM DEBT

Revenue Bonds - The Village has a bond issue with Farmers Home Administration, an agency of the United States Department of Natural Resources. This is a revenue bond issue, whereby revenue derived from the utility system is used to pay the debt service.

The following is a summary of changes in long-term debt for the year ended February 29, 2008:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Revenue Bonds - Sewer Fund	\$ 560,000	\$ 0	\$ 70,000	\$ 490,000

Annual debt service requirements to maturity as of February 29, 2008, are as follows:

Sewer Fund - \$ 1,192,000 Revenue Bond Issue, interest rate 5.875%

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>February 28</u>			
2008 *	\$ 0	\$ 0	\$ 0
2009 *	0	0	0
2010 *	0	0	0
2011 *	0	0	0
2012*	0	0	0
2013-2017	200,000	116,718	316,718
2018-2022	<u>290,000</u>	<u>37,338</u>	<u>327,338</u>
Totals	<u>\$ 490,000</u>	<u>\$ 154,056</u>	<u>\$ 644,056</u>

* There are no required payments in these years because the Village has made advance payments.

NOTE 9 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2007 was 10.8032 mills, all allocated to General Fund. The 2007 total state taxable value was approximately \$7,358,947. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

NOTE 10 - SEGMENT INFORMATION

The Village issues separate revenue bonds to finance its sewer department. The fund financial statements report major funds with revenue - supported debt for the sewer fund. Services provided by this fund are described in Note 1.

VILLAGE OF NORTH ADAMS
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 11 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

NOTE 12 - UNEMPLOYMENT TAXES

The Village is a reimbursing employer to the Michigan Unemployment Insurance Agency and, as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of February 28, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property Taxes	\$ 73,000	\$ 73,000	\$ 79,236	\$ 6,236
State Shared Revenue	47,500	47,500	49,990	2,490
Fire Service	37,750	37,750	23,529	(14,221)
Rents & Royalties	24,000	24,000	22,700	(1,300)
Interest	9,000	9,000	20,658	11,658
Miscellaneous	<u>4,000</u>	<u>4,000</u>	<u>5,546</u>	<u>1,546</u>
Total Revenue	<u>\$ 195,250</u>	<u>\$ 195,250</u>	<u>\$ 201,659</u>	<u>\$ 6,409</u>
EXPENDITURES				
Village Council	\$ 4,775	\$ 4,775	\$ 6,639	\$ 1,864
Clerk	4,200	4,200	4,200	0
Treasurer	2,800	2,800	2,800	0
Contracted Services	13,000	13,000	8,430	(4,570)
Buildings & Grounds	12,450	12,450	15,272	2,822
Office Supplies and Postage	3,000	3,000	1,007	(1,993)
Fire Department	14,400	14,400	7,187	(7,213)
Public Works	45,000	45,000	38,857	(6,143)
Street Lighting & Maintenance	25,000	25,000	25,045	45
Sanitary Landfill	5,500	5,500	6,009	509
Recreation & Culture	3,625	3,625	3,000	(625)
Publishing	250	250	198	(52)
Payroll Tax Expense	5,000	5,000	6,300	1,300
Dues & Subscriptions	500	500	600	100
Insurance - Property	35,000	35,000	27,285	(7,715)
Insurance - Health & Life	16,750	16,750	14,632	(2,118)
Capital Outlay	0	0	0	0
Elections	1,000	1,000	1,124	124
Miscellaneous	<u>250</u>	<u>250</u>	<u>1,136</u>	<u>886</u>
Total Expenditures	<u>\$ 192,500</u>	<u>\$ 192,500</u>	<u>\$ 169,721</u>	<u>\$ (22,779)</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 2,750	\$ 2,750	\$ 31,938	\$ 29,188
FUND BALANCES - Beginning	<u>411,832</u>	<u>411,832</u>	<u>411,832</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 414,582</u>	<u>\$ 414,582</u>	<u>\$ 443,770</u>	<u>\$ 29,188</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State Shared Revenue	\$ 20,000	\$ 20,000	\$ 41,989	\$ 21,989
Interest	<u>250</u>	<u>250</u>	<u>496</u>	<u>246</u>
Total Revenue	<u>\$ 20,250</u>	<u>\$ 20,250</u>	<u>\$ 42,485</u>	<u>\$ 22,235</u>
EXPENDITURES				
Routine Maintenance	\$ 12,000	\$ 12,000	\$ 11,758	\$ (242)
Winter Maintenance	<u>13,000</u>	<u>13,000</u>	<u>15,279</u>	<u>2,279</u>
Total Expenditures	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 27,037</u>	<u>\$ 2,037</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ (4,750)	\$ (4,750)	\$ 15,448	\$ 20,198
FUND BALANCES - Beginning	<u>11,481</u>	<u>11,481</u>	<u>11,481</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 6,731</u>	<u>\$ 6,731</u>	<u>\$ 26,929</u>	<u>\$ 20,198</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF NORTH ADAMS
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>			Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUE				
State Shared Revenue	\$ 7,000	\$ 7,000	\$ 9,354	\$ 2,354
Interest	<u>100</u>	<u>100</u>	<u>166</u>	<u>66</u>
Total Revenue	<u>\$ 7,100</u>	<u>\$ 7,100</u>	<u>\$ 9,520</u>	<u>\$ 2,420</u>
EXPENDITURES				
Routine Maintenance	\$ 0	\$ 0	\$ 2,770	\$ 2,770
Winter Maintenance	<u>0</u>	<u>0</u>	<u>4,114</u>	<u>4,114</u>
Total Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,884</u>	<u>\$ 6,884</u>
REVENUE OVER (UNDER) EXPENDITURES	\$ 7,100	\$ 7,100	\$ 2,636	\$ (4,464)
FUND BALANCES - Beginning	<u>25,010</u>	<u>25,010</u>	<u>25,010</u>	<u>0</u>
FUND BALANCES - Ending	<u>\$ 32,110</u>	<u>\$ 32,110</u>	<u>\$ 27,646</u>	<u>\$ (4,464)</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council
Village of North Adams
North Adams, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Village of North Adams as of and for the year ended February 29, 2008, which collectively comprise the Village of North Adams' basic financial statements and have issued our report thereon date September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of North Adams' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of North Adams' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of North Adams' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed above, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of North Adams' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of North Adams' financial statements that is more than inconsequential will not be prevented or detected by the Village of North Adams' internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

The Village utilizes hand ledgers to record its cash receipts and disbursements, as opposed to an accounting software program. While this method is acceptable, there are not currently procedures in place to ensure that the figures are complete (all receipts and disbursements have been recorded for every account) and that they balance (beginning cash + receipts - disbursements = ending cash). The state chart of accounts also needs to be used for

coding of the receipts and disbursements. We recommend that the Village either begin posting a complete and balanced general ledger or begin utilizing an accounting software program.

The Village does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with generally accepted accounting principles (GAAP).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of North Adams' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we do consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of North Adams' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, we noted other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses, but are opportunities for improvement:

Annual Budget

The Village must hold a public hearing for its annual budget. This hearing must be separate from the normal board meeting. Notice of this public hearing must be published.

There were also a few line items for which expenditures exceeded the budgeted amounts. We recommend the Village monitor and amend the budget periodically.

Investment Policy

The Village should adopt a revised investment policy to comply with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 40.

State Chart of Accounts

State statutes require all governments to use a standard chart of accounts in maintaining financial records. We recommend that the Village utilize this chart of accounts, for both budgeting and transaction recording purposes.

Certificates of Deposit

The Village should prepare ledgers showing certificate of deposit activity.

Village Council
Village of North Adams
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This report is intended solely for the information and use of management, the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshure & Company PC

Jonesville, Michigan
September 29, 2008